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TRUST LITERATURE: A SURVEY AND A CRITICISM.

THE industrial changes in the United States during the last two or three years have called forth inevitably a multitude of writings dealing with the problem of trusts,* just as, in the earlier years of the present decade, the condition of our national finances stimulated the discussion of the tariff or the silver question. It is the purpose of this article to present a brief survey of the recent output of trust literature, and then to attempt a critical estimate of the views advanced concerning the most important theoretical problems involved in the study of industrial consolidation.

I.

In mere volume, at least, the product of the last few years is noteworthy. Discussion of the monopoly question in the United States seems to have begun early in the

* By "trusts" the writer means those great combinations of capital in our manufacturing industries which are commonly called by this name. It is not the purpose of this paper to deal with the literature devoted primarily to the problems presented by the so-called natural monopolies.

seventies, when popular dissatisfaction arose concerning railroad rates and management. Then, for a time, an occasional article in some periodical indicated only a fitful interest in the subject, until early in the eighties the formation of the Diamond Match Company and the Standard Oil Trust caused a livelier discussion of the problem of monopoly. Later in the same decade the appearance of other combinations, as well as a growing interest in railroads and municipal monopolies, caused a marked increase of writings dealing with this subject. An incomplete bibliographical summary shows that fifteen treatises or reports of official investigations and over thirty-five noticeable articles in the chief periodicals appeared between 1887 and 1890. For the next six years the output diminished, probably for the reason that the tariff and the money questions were uppermost in the public mind ; * and only eight books or reports and hardly more than a score of articles were published during the period. In 1897 and 1898 at least six books or pamphlets and about thirty articles appeared, foreshadowing an increased interest in the problem of monopoly. And, finally, the last two years have given us not less than twenty-eight books, reports, and pamphlets, together with a flood of periodical articles that will reach probably one hundred and fifty titles when the returns for 1900 have all been received. While these figures can claim only substantial accuracy, they will suffice to show that the production of trust literature has kept pace with the process of industrial consolidation.

Any bibliography of these writings, like lists of recently formed trusts, becomes antiquated before it leaves the press, so rapid is the rate of increase. The only serious attempt in this direction is Mr. A. P. C. Griffin's *List of*

* That the small amount of trust literature that appeared between 1890 and 1896 was due to the predominance of other issues may be inferred from the fact that in 1892 and 1896, the two years when presidential elections occurred, our bibliography shows that no books, and only a few articles, appeared. During the period from 1886 to 1900, these (1892 and 1896) were the only years in which no books were published.

Books relating to Trusts,* which appeared early last summer. This is of considerable value to the student, but professes to give "only the chief authorities." The list of books and pamphlets is nearly complete, but the reader is surprised to notice that the bibliography refers to Nicholson's short chapter on monopoly value, and does not include the valuable discussion of combinations of capital, contained in Hadley's *Economics;* while in the references to periodical literature he will often wonder what principles of selection could have been followed.

Since the present article must be confined to *recent* literature, it has seemed best to draw a line somewhat arbitrarily at the year 1897, and to exclude from consideration most of the writings that appeared before that date. Within these limits the author will aim to give detailed references to the books, reports, and pamphlets that have come to his attention up to the time of writing. In some cases, however, it will be necessary to refer to works that appeared earlier than 1897. With periodical literature no extended bibliography is necessary in these days, when *Poole's Index* is available for every reader, so that the citations here given will be confined to the most valuable articles, and to some others that are significant as representing certain shades of opinion.

Passing over certain discussions of the monopoly problem that have appeared in some recent economic treatises and general works of reference,† which, by the way, may be recommended to those who are beginning the study of this subject, we may divide recent trust literature into

* *A List of Books (with References to Periodicals) relating to Trusts.* Washington, 1900. The one other recent list of trust writings that deserves mention may be found in the *Chautauquan*, xxx. 237, 238. For an excellent bibliography of earlier works, see von Halle, *Trusts*, 338–350 (New York, 1895).

† W. P. D. Bliss, *Encyclopædia of Social Reform*, 888–894, 1346–1348 (New York, 1898); R. H. I. Palgrave, *Dictionary of Political Economy*, ii. 802–807 (London, 1896); C. J. Bullock, *Introduction to the Study of Economics*, 309–335 (2d edition, New York and Boston, 1900); A. T. Hadley, *Economics*, 151-173 (New York, 1896).

eight classes. It is true that any such procedure will be open to the charge of arbitrariness at some points; but, on the other hand, it will avoid so much repetition and bring opposing theories into such clear relief that it may be trusted to commend itself to the reader.

(1) The first of our eight classes comprises the reports of official investigations * and the proceedings of conferences called under the auspices of various organizations.† The New York investigation of 1897 was mainly a shrewd political move, intended to prove the undying hostility of the Republican party to trusts; but it brought out some interesting information. The trust magnates summoned to testify before the legislative committee suffered from those attacks of loss of memory with which they are usually afflicted upon such occasions; but Mr. Theodore Havemeyer volunteered the statement that he would not care to engage in a business enterprise that did not promise a profit of 15 or 20 per cent. The Industrial Commission was more successful than any previous body of investigators in securing testimony from persons interested in trusts, and its *Report* contains a careful digest of evidence that adds greatly to its usefulness. The Standard Oil combination seems to have made a most careful and systematic endeavor to clear itself from the many damaging charges that have been brought against its methods; ‡ and, if the public still remains unconvinced of the spotless pu-

* *Report and Proceedings of the Joint Committee of the Senate and Assembly appointed to investigate Trusts*, Senate Document 60 (Albany and New York, 1897); Industrial Commission, *Preliminary Report on Trusts* (Washington, 1900); Same, *Trusts and Industrial Combinations,—Statutes, Decisions*, and *Digest of Corporation Laws; Bulletin of the Department of Labor*, No. 29, pp. 661–831, "Trusts and Industrial Combinations" (Washington, 1900).

† *The Chicago Conference on Trusts* (Chicago, 1900); *Official Report of the National Anti-trust Conference* (Chicago, 1900); *Corporations and Public Welfare*, Addresses at the Annual Meeting of the American Academy of Political and Social Science (New York, 1900).

‡ This testimony of the oil magnates has been gathered together into a single volume, *An Inside View of Trusts* (New York, 1899), which has been distributed broadcast, probably for "educational purposes."

rity of this organization, it will not be due to any lack of sweeping denial and stout asseveration in the testimony of the oil magnates. The most valuable feature of this Report is the investigation, conducted under the direction of Professor Jenks, into the effect of combinations upon prices. This gives us the best available data for a trustworthy conclusion upon a most fundamental question. Nearly as much can be said of the Digest of Corporation Laws, contained in the second volume of the Commission's Report. The conclusions and recommendations advanced by the Commission will never be charged with radicalism, and are marked by extreme sensitiveness concerning the relation of trusts to the protective tariff. The *Bulletin of the Department of Labor* contains further data concerning the effect of trusts upon prices, and publishes the results of an independent investigation into the working of these combinations. This investigation was conducted by sending out schedules of questions to forty-one organizations; and the *Bulletin* presents the results in tabular form, whenever that is possible. The information thus gathered is of no little interest; but it must be accepted with certain reservations, since it was not to be expected that the companies answering the inquiries would give testimony adverse to their own interests. This would probably be conceded readily by Professor Jenks, who had charge of the investigation.

The proceedings of the Trust Conference, held under the auspices of the Civic Federation of Chicago, attracted such general attention * at the time that little space need be devoted to them in this review. It will suffice to say that, while only a few of the papers and addresses at the conference possess any considerable value in themselves, the proceedings as a whole should be read by every student who desires to form an estimate of the present

* See *Harper's Weekly*, xliii. 954, 975; *Outlook*, lxiii. 199; *Independent*, li. 2602; *Review of Reviews*, xx. 457; *Journal of Political Economy*, viii. 1; *Annals of the American Academy*, xv. 69.

condition of popular opinion upon trusts. All sorts and conditions of men were present at the conference, and their opinions may be taken as fairly representative of the classes for which they spoke. *The Report of the National Anti-trust Conference* has a similar interest, as an expression of the sentiments of a very large class of persons who see little or nothing that is good in the process of industrial consolidation. Some of the addresses contained in the volume are of decided value in calling attention to the undoubted abuses and dangers that attend the movement. *Corporations and Public Welfare* is devoted largely to discussions of railroads and other public service companies, but contains articles upon industrial securities as investments and the influence of corporations upon political life.

(2) In our second class may be placed those writings in which the trust movement is accepted as inevitable, and its causes, advantages, dangers, and proper regulation are discussed. No less than five recent books belong to this group.* Harper's *Restraint of Trade* is a mere collection of extracts from various works upon trusts; but the compiler's opinion is, evidently enough, that "modern industrial conditions have demanded" that the "principle of combination be generally accepted." The books of Baker, Collier, von Halle, and Jenks agree in finding the cause of trusts in the conditions of modern competition and the economies that arise from the combination of capital. These writers hold that the trusts represent a distinct economic gain in productive power, but recognize that these organizations have been attended with many abuses. Professor Jenks and Mr. Collier advocate no radical action to restrain the evils of trusts, but propose various moderate remedies, of which the chief is always publicity. Mr. Baker, however, believes that no efficient method of

* C. W. Baker, *Monopolies and the People*, (2d edition, New York and London, 1899); W. M. Collier, *The Trusts* (New York, 1900); E. L. von Halle, *Trusts, or Industrial Combinations in the United States* (New York, 1895); W. H. Harper, *Restraint of Trade* (Chicago, 1900); J. W. Jenks, *The Trust Problem* (New York, 1900).

regulation can be found short of placing a representative of the government upon the board of directors of every combination. The main contention of these works — that trusts are a natural and inevitable outcome of modern conditions —we shall reserve for more extended discussion, in subsequent pages.*

A decided majority of the articles that have appeared recently in the periodicals, popular or scientific, should be included in this class.† President Hadley and Professor Kinley argue that trusts are due to destructive competition and the superior economy of concentrated production; Professor Sherwood believes that these organizations are the agency through which the most skilful management is secured; Mr. Coleman and Mr. Robinson look upon such combinations as an inevitable product of industrial evolution; and Professor Jenks again presents the views advanced in *The Trust Problem*. In these articles the reader will find little that is new.

(3) Radically different views are advanced in works of a third class.‡ M. de Rousiers is too faithful to the tenets of the orthodox French school to abandon his belief in the efficacy of the competitive system. His interesting work contains the results of an investigation into the leading industries that have fallen into the hands of trusts. He finds almost everywhere a tendency towards

* With these books should be mentioned the chapter on trusts contained in Professor Giddings's *Democracy and Empire*, 137–143 (New York, 1900). The author holds that the trust " could never have become the great factor in the commercial world that it is to-day " unless it had been " an efficient device for dealing with existing industrial conditions."

† See articles by Hadley, in *Scribner's Magazine*, xxvi. 604; Kinley, in *Progress*, v. 7; Sherwood, in *Yale Review*, viii. 362; Coleman, in *Journal of Political Economy*, viii. 19; Robinson, in *Conservative Review*, iv. 33; Jenks, in *Quarterly Journal of Economics*, xv. 46; Smith, in *Chautauquan*, xxix. 347; Ashley, *Surveys, Historic and Economic*, 378–391 (London, 1900). See also article by Carnegie in *Century Magazine*, lx. 145.

‡ P. de Rousiers, *Les industries monopolisées aux États-Unis* (Paris, 1898); R. T. Ely, *Monopolies and Trusts* (New York and London, 1900); A. B. Nettleton, *Trusts or Competition* (Chicago, 1900); H. Wallace, *Trusts, and how to deal with them* (Des Moines, 1899).

production on a large scale, but thinks that this is not the cause of monopoly. The real cause, he contends, is control over limited supplies of raw material and facilities for transportation, or the special advantages conferred by tariff and patent laws. His remedy for the evils caused by trusts is to abolish all restrictions, and thus to leave competition free to do its perfect work. Professor Ely's recent book is a treatise on the subject of monopoly; and begins with a study of definitions, a classification of monopolies, and a formulation of the law of monopoly price. It then proceeds to discuss the subjects of industrial consolidation, the limits of monopoly, and the permanence of competition. While the author holds that competition is impossible in the field of the "natural monopolies," he believes that elsewhere the tendency towards consolidation is limited by virtue of the fact that, beyond a certain point, combination of capital is not economical. Our present trusts he believes to be the result of special privileges and corporate abuses,—a conclusion which is very much like that reached by M. de Rousiers. Mr. Nettleton's book is to a great extent a compilation of facts and opinions, but in the second chapter the author presents his own conclusions in a vigorous argument against the trust. He believes that the economies of consolidation cease before the point of monopoly is reached, and that existing combinations are the "result of monopoly hunger" and the product of railroad discriminations and other unfair privileges. For a remedy he advocates rigorous legal prohibitions, supplemented by a reform of existing abuses. Mr. Henry Wallace concedes that the disorders sometimes attending modern competition not unnaturally lead producers to take refuge in combination. He believes, however, that the trust is a vicious method of remedying the evils which competition sometimes produces, and that the consolidations of recent years have caused a specu-

lative "boom" which is sure to be followed by a disastrous reaction.

To Professor J. B. Clark we owe a series of papers * in which the contention is made that, while large-scale production is economical and giant industrial undertakings are to be the order of the day, competition is certain to continue, nevertheless. Professor Clark believes that monopoly is almost wholly bad, and that the most efficient management is found in independent establishments, not in monopolistic concerns that are removed from the stimulus of competition. His remedy for evils that attend the present trust movement is to take away from the combinations their favorite weapons,—price discriminations, factors' agreements, and other questionable devices,—so that competition can operate without let or hindrance. With this accomplished, he believes that industrial consolidation can proceed to any extent that may be deemed advantageous, without producing the evil results inseparably connected with monopoly.

If a digression is permissible at this point, we may suggest that Ely's *Monopolies and Trusts* and Jenks's *Trust Problem* are the works that will be found most useful for the general reader. Both of these books are thoroughly readable, and they will be found to supplement each other in a most helpful manner. Ely discusses the definition and classification of monopolies; while Jenks explains the methods by which trusts are promoted, financed, and floated. The one writer formulates the law of monopoly price; and the other furnishes statistics showing precisely what influence combinations have exerted upon prices. The first book presents the arguments of those who believe that the monopolistic features of trusts are due to special privileges and unlawful practices; the second contends that these industrial combinations have de-

* See "Theory of Economic Progress" in *Economic Studies*, i. 5 (New York, 1896); *Atlantic Monthly*, lxxxv. 47; *Political Science Quarterly*, xv. 181; *Gunton's Magazine*, xix. 209.

veloped naturally out of the conditions of modern competition. *Monopolies and Trusts* advocates remedies that are designed to restore competition to its former position as the fundamental economic force; *The Trust Problem* accepts the principle of combination, and proposes conservative methods of regulating monopolistic enterprises. From the study of the two books the reader can gain a competent knowledge of the chief subjects that now interest students of this important question.

(4) In a fourth group we may place a number of articles which relate to various phases of the trust movement. Upon the financial aspects of consolidation three references may be commended to the reader.* Mr. Charles S. Fairchild has discussed, from the point of view of the practical banker, the financing of trusts. Mr. James B. Dill has called attention to the dangers that have attended the manufacture of industrial securities, often falsely so-called, and has insisted that the only safety for the trusts can be found in the complete abandonment of speculative management; while Dr. E. S. Meade has written a most valuable survey of the financial aspects of the trust problem.

Comparatively little work has been done in recent years upon the history of individual trusts, probably because the consolidation movement has been so well-nigh universal as to draw attention away from the fortunes of particular enterprises. Yet special articles have been devoted to the wire-nail association of 1895, the tin-plate combination, and some others;† while the testimony taken by the Industrial Commission contains a large amount of material for the history of recent industrial changes. Finally, the

* See Fairchild and Dill, in *Publications of the American Economic Association*, Third Series, i. 149 and 177; Dill, in *Corporations and Public Welfare*, 107; Dill, *The College Man and the Corporate Proposition*, privately printed (New York, 1900); and Meade, in *Annals of the American Academy of Political Science*, xvi. 345.

† See Edgerton, in *Political Science Quarterly*, xii. 246; McVey, in *Yale Review*, viii. 156; also *Harper's Weekly*, xlii. 202; *Independent*, xlix. 273.

phenomenal activity of trust promoters in 1898 and the earlier part of 1899 has been well described by Mr. Byron Holt.*

(5) A fifth class comprises those writings which relate primarily to the special favors and other abuses by which, undoubtedly, trusts have profited to a considerable extent. Most prominent among such evils has been discrimination in railway rates. Mr. Lloyd's *Wealth against Commonwealth* did good service in showing the potency of the "smokeless rebate" as a weapon for destroying competition, and few recent writers have failed to say something on this subject.† Of late the tendency has been to give too little weight to this factor in the trust problem; and it is well for us to be reminded by Mr. Aldace F. Walker that "the trusts have the railroads by the throat," and to have Mr. Prouty, of the Interstate Commerce Commission, explain the precise methods by which the federal law against discriminations is constantly violated.

Naturally enough, the relations of trusts to the protective tariff have claimed the attention of many writers; but comparatively little work has been devoted primarily to this subject. Economists have been so much occupied with discussions of the advantages of large-scale production and the destructive character of competition that they have probably minimized unduly the importance of the tariff as a factor in the present situation. The Industrial Commission, in particular, has evinced such an anxiety that no harm to the cause of high protection shall come from its investigations as to lead the Philadelphia *Ledger* to remark, in a recent editorial, that, "if this be a sample of the character of the inquiry the Industrial Commission is pursuing, it might as well suspend its hearings, since it

* *Review of Reviews*, xix. 675.

† For writings dealing *primarily* with railroad discriminations, see H. D. Lloyd, *Wealth against Commonwealth* (New York, 1894); J. Hardesty, *The Mother of Trusts*, 185–208 (Kansas City, 1899); Prouty, in *Annals*, xv. 41; Walker, in *Forum*, xxvii. 256–257; Newcomb, in *Gunton's Magazine*, xvii. 347.

is plainly committed to the preservation of the trust-promoting and sustaining provisions of the existing tariff, no matter how glaring may be the abuses perpetrated under cover of its schedules." We hardly need to be informed that some trusts are independent of tariff protection, and that combinations of capital exist in England under free trade; since very few people imagine that protective duties are the sole cause of trusts, and we know that unrestricted foreign competition prevents most English combinations from abusing their powers. The chief questions worth discussing are whether, as Mr. Havemeyer alleges, the tariff causes over-investment in certain industries, thus producing a period of depression that results in consolidation; and to what extent the prices of tin plate, steel rails, wire nails, window glass, paper, salt, sugar, and other articles controlled by trusts or pools, have been raised to exorbitant figures under the shelter of protective duties. In this direction the New England Free Trade League has rendered us a service by publishing a series of letters relating to the extortion practised by many of the trusts.*

(6) In the sixth class belong the writings of the panegyrists of the trust movement.† In these works, industrial combinations are represented as the greatest invention and benefaction of this age or almost any other; and those who hold opposing views are designated by such pleasing terms as socialists, demagogues, blackmailers, and the like. Popular discontent against trusts is due to "hatred of

* *Twenty-four Letters relating to Trusts and the Tariff* (Boston, 649 Tremont Building). See, also, Taussig, in *Quarterly Journal of Economics*, xiv. 500, 501, 503, 507.

† Although works of this class have been distributed broadcast, the writer has not been able to secure copies of all of them. Those at hand are: H. Apthorp, *Trusts and their Relation to Industrial Progress* (Cleveland, 1899); C. R. Flint, *Industrial Combinations* (N. P., N. D.); G. Gunton, *Trusts and the Public* (New York, 1899); D. F. Kennedy, *Trusts: An Argument from Labor's Standpoint* (N. P., N. D.). Mr. S. C. T. Dodd has brought together a number of papers previously published, and they now appear under the title *Trusts* (New York, 1900). As representative of magazine articles of this class, see R. P. Flower, in *Gunton's Magazine*, xiii. 251; Gunton, in *Gunton's Magazine*, xix. 344.

wealth," hostility to capital, or at least to the desire to stir up class feeling and organize a crusade against prosperity. Particular mention will be made only of Gunton's *Trusts and the Public*, which is an amorphous collection of papers written at various times during the last dozen years. The author is most outspoken in condemning anti-trust agitation, and loud in his praises of industrial combinations, especially the Standard Oil Company. A noticeable feature of the book is the effort made to refute all charges brought against this organization. In the earlier papers, written before 1899, the sugar combination figures as a second model trust; but upon this subject Mr. Gunton's views changed after Mr. Havemeyer went to Washington, and told the Industrial Commission that the tariff is "the mother of all trusts." Before that time Mr. Gunton had insisted that good trusts, like the sugar and oil combinations, formed for economic purposes, are not monopolies; but, after Mr. Havemeyer's fall from grace, we find this author denouncing him as "a cunning monopolist." In a paper written in 1888, which forms the first chapter of the book, Mr. Gunton had proved that fears of the political influence of trusts are unfounded; but in 1899 he wrote that the activity of the sugar magnates in Washington had become "a national scandal," as bad, in fact, as anything that had ever "occurred in the public affairs of the Republic." Mr. Gunton's own conclusion is that, "Tariffs and trusts should be discussed on their own merits, separately," — a method that certainly possesses the merit of convenience for those who entertain views similar to his own.

(7) Writings of the seventh class we will designate as radical, since they come from those who advocate most radical methods of reform.* Mr. Hugh Lusk devotes special

* F. A. Adams, *Who Rules America?* (New York, 1899); H. L. Chaffee, *Book of Trusts* (Chicago, 1900); W. H. Harvey, *Coin on Money, Trusts, and Imperialism* (Chicago, 1899); H. Lusk, *Our Foes at Home* (New York, 1899); G. H. Shibley, *A Trust of Trusts* (Chicago, 1898); *The Monopoly Question* (New York, 1900); *Momentous Issues* (Chicago, 1900).

attention to the legislation adopted in New Zealand to check the growth of monopoly. Most of the other works included in this group have much to say concerning the relation of the money question to the trust problem. Thus it is urged that the era of falling prices drove producers into consolidation; * and "Coin" holds that the "money trust" is the mother of all others, and will ultimately control all other combinations. Of more interest are the specific references to the consolidation now in progress in the world of banking.† Beyond all doubt a combination, represented by such institutions as the National City Bank, is now under way, the purpose of which is to dominate the banking business in our chief financial centres. The day may come when all economists will be obliged to give this movement their serious attention.

(8) Our eighth class includes literature on the legal aspects of trusts, of which naturally enough the output has not been small.‡ It is not the purpose of this article to emphasize the legal side of the trust question, and a bare outline of the results of recent discussions will suffice. The advocates of trusts believe that the legal position of these corporations is now unassailable. It is conceded that old-fashioned "conspiracies to engross the necessaries of life" are unlawful, and that the early trust agreements or such contracts as that of the Addyston Pipe combination cannot be sustained. But the large corporations now known as trusts are deemed perfectly secure, since the

* See also E. B. Andrews, in *International Journal of Ethics*, iv. 323, and Swain, in *Chicago Conference on Trusts*, 537-539.

† See facts presented in *Report of the Anti-trust Conference*, 326-327; Shibley, *Momentous Issues*, 77-78; Harper, *Restraint of Trade*, 342-345.

‡ For books see C. F. Beach, *Treatise on the Law of Monopolies and Industrial Trusts* (St. Louis, 1898); F. H. Cooke, *The Law of Trade and Labor Combinations* (Chicago, 1898). For important periodical literature see *American Law Register*, xxx. 751; *American Law Review*, xxxiii. 63, 499, xxxiv. 186; *Harvard Law Review*, vii. 128, 157, 333; *American Journal of Sociology*, i. 411; *Political Science Quarterly*, xii. 212, 622; *Quarterly Journal of Economics*, xiv. 416; *Forum*, xxvi. 452, xxviii. 732.

powers of Congress to regulate interstate commerce do not, under the decision of the Supreme Court in the Knight case,* extend to manufacturing enterprises; while the States cannot prevent their citizens from selling their property to domestic corporations or restrain them from purchasing the products of foreign companies. Upon the other hand there are those who contend that the formation of a monopoly is illegal, whether this is done by means of a pool, a trust, or an incorporated company; † and there are not wanting writers who declare that, although State corporations engaged in manufactures are not directly amenable to the power of Congress to control interstate commerce, nevertheless these companies can be reached indirectly by laws excluding the products of monopolistic combinations from interstate commerce, prohibiting such organizations from using the mails, and employing other drastic measures.‡

II.

Of the many important questions involved in the study of trusts, the most fundamental concerns the alleged monopolistic character of these combinations; and, since diagnosis must precede the rational treatment of the disease,— if disease there be,— this aspect of the problem may be considered to possess the greatest theoretical and practical importance. What, then, do recent discussions have to say upon this subject?

From a number of writers we meet the contention that

* 156 U. S., 1.

† Thus it is pointed out that in the Knight case the court had no difficulty in recognizing that the sugar combination was a monopoly, although it declined to interfere on the ground that the manufacture of refined sugar was not interstate commerce.

‡ Besides these eight classes of writings, there remain three pamphlets, for which a single note will suffice. Two of these are by socialists: J. B. Smiley, *To What are Trusts Leading?* (Chicago, 1899); B. Bouroff, *The Impending Crisis* (Chicago, 1900). The third describes a farmers' trust: L. L. Hopkins, *The Coming Trust* (New York, 1900).

the trusts are not monopolies in any proper sense of the term.* Mr. Gunton argues that, whenever these combinations have secured control of their respective industries, this power has come from their ability to render cheaper and better service, and not from the possession of any exclusive privileges. So that potential competition always remains, and monopoly cannot be said to exist. Mr. Dodd says that, since "all are free to combine," competition is not destroyed, but is merely "moved to a higher plane." Mr. Robinson tells us that, while trusts may involve "the repression of competition," they are monopolies neither "in scope nor method"; and many similar citations might be given if space would permit. But some of those who entertain this view of the case have adopted a very different tone when discussing such unfortunate enterprises as the New York ice combination, which, for some singular reason, was not considered an orthodox trust in good and regular standing.

Some legal writers are inclined to insist upon a narrow definition of monopoly, which would restrict it to those cases where a person or company enjoys an exclusive grant from the government.† Thus Mr. Knox declares: "Monopolies can only exist by grant from the sovereign. They cannot be created by contract between individuals." Mr. Dodd would define monopoly as "a grant by the government for the sole buying, working, making, or using of anything"; and Mr. Weil adopts a similar definition. In further support of this view, a few decisions of our courts may be cited.‡ But the general trend of the decisions is overwhelmingly in the contrary direction;§

* For the references, in order, see Gunton, *Trusts and the Public*, 5, 7, 8, 36; *Gunton's Magazine*, xix. 350, 351; Dodd, *Trusts*, 44; Robinson, in *Conservative Review*, iv. 50, 52. See also *Chicago Conference*, 476; Apthorp, *Trusts*, 11; *Journal of Political Economy*, viii. 29; *Forum*, xxvii. 260.

† See *American Law Register*, xxxvi. 423; Dodd, *Trusts*, 36, 37; *Chicago Conference*, 86.

‡ 52 Fed. Rep., 115, 567.

§ 54 Hun, 354, 356, 376, 379; 30 N. E. R., 279, 290; 44 Fed. Rep., 721;

and Mr. F. H. Cooke makes a correct statement of the present legal doctrine when he says: * "Within a comparatively recent period the conception of a monopoly has been extended from a right created by government to a condition produced by the acts of mere individuals; thus, where within a given area all sales of a given article are made by a single individual or set of individuals." †

The vast majority of writers recognize that the trusts generally attempt to secure a monopoly and actually possess monopolistic features,—a fact upon which it is unnecessary to dwell. But oftentimes the word "monopoly" is qualified by the use of such adjectives as "partial," "incomplete," "precarious," or "temporary." ‡ It is clear, furthermore, that the meaning attached to the term § is such a degree of control over the supply of a commodity as enables the person or persons possessing it to control the price, and fix charges at something more than the normal competitive rate. In order to be complete, the monopoly must be able to maintain prices at the point of highest net returns.

The conclusion that the element of monopoly inheres in the trust movement is based, in the first place, upon evidence concerning the purposes for which combinations are formed. Prominent business men who have declined

85 Fed. Rep., 271; 156 U. S., 16, 18; 166 U. S., 322; 175 U. S., 244. The following words of Chief Justice Fuller seem to settle the question: "Again, all the authorities agree that in order to vitiate a contract or combination it is not essential that its result should be a complete monopoly. It is sufficient if it really tends to that end and to deprive the public of the advantages which flow from free competition." 156 U. S., 16.

* *Law of Trade and Labor Combinations*, 94, 95.

† For other legal writers holding the same view, see Huffcut, in *Industrial Commission*, i. part 2, p. 1211; Gaither and Keasbey, in *Chicago Conference*, 286, 384, and *Harvard Law Review*, xiii. 199.

‡ Jenks, *Trust Problem*, 61; Sherwood, in *Yale Review*, viii. 365; Collier, *The Trusts*, 302; Brooks, in *Chicago Conference*, 62; Forrest, in *American Journal of Sociology*, v. 241. On the other hand, Andrews says the trusts mean "absolute monopoly" of a permanent character. *International Journal of Ethics*, iv. 325, 326.

§ *E.g.*, see Ely, *Monopolies and Trusts*, 14; Jenks, *Trust Problem*, 64, 65.

invitations to enter trusts, or have had knowledge of the circumstances attending the formation of such enterprises, state most explicitly that the main inducement held out to the owners of the plants which are to be combined is the prospect of controlling the market and exacting higher prices.* Then the prospectuses issued by many combinations tell the same story, and control over the greater part of the output must generally be secured before the promoter can make his proposition attractive to financiers and investors.† Such control must be obtained at all hazards, even at the expense of paying extortionate prices for efficient plants or buying worthless factories at substantial valuations.‡ Moreover, the tactics employed to stifle possible competition are decidedly unlovely, and are almost inexplicable upon any other assumption than that a desire exists to secure monopolistic powers.§ Finally, several trust magnates have admitted that the purpose of their companies was to control output and prices, and have conceded that this had been accomplished.||

But the best evidence of the existence of such intent is the fact, which appealed so strongly to Judge Taft in the Addyston case,¶ that monopolistic powers have been exercised. Economists do not need to be told that a combina-

* See T. B. Walker, in *Chicago Conference*, 540, 541; J. S. Pillsbury, in Nettleton, 250, 251; Griffiths, in *Report Industrial Commission*, i. 176.

† See *Annals*, xvi. 358; *Commercial and Financial Chronicle*, July 23, 1898; Nettleton, *Trusts*, 52.

‡ Thus one concern held up the American Tobacco Company for $12,500,000 in cash. *Annals*, xvi. 364. See, further, Collier, 67, 68; von Halle, 61; Nettleton, 250; Carnegie, in *Century*, lx. 148.

§ Passing over the more objectionable tactics, a single instance may be cited. The American Tin-plate Company made contracts with manufacturers of machinery by which the combination was to purchase the entire output. *Yale Review*, viii. 167; *Industrial Commission*, i. 179. Could evidence of monopolistic purpose be clearer?

|| McNulta, Havemeyer, and Gates. *Industrial Commission*, i. 60, 63, 81, part 2, 1009, 1010. Jenks says that in private conversation such persons will usually admit that the chief purpose "has been to check competition." *Quarterly Journal of Economics*, xv. 47.

¶ 175 U. S. R., 237.

tion that produces from 70 to 90 per cent. of the supply can substantially control prices,* and this is admitted by such expert witnesses as Messrs. Havemeyer and Archbold.† It is well known that many trusts control from 65 to 95 per cent. of the products of their respective industries,‡ and that some of them announce from day to day the prices that prevail in domestic markets.§ Therefore, we are not surprised to learn that the most reliable investigation into prices ‖ shows that, in almost every case, combinations have managed to increase the margin ¶ between the cost of materials and the price of the finished product for considerable periods of time.** This fact establishes the existence of monopolistic intent and monopolistic power.

III.

Since most writers recognize that the recent combinations of capital have developed monopolistic tendencies to a considerable extent, the outlook for the future becomes a most interesting and important problem. Under all the circumstances, it is not surprising that recent years have witnessed numerous attempts to bring the control of various industries into the hands of single corporations of

* Only Gunton denies this. See *Gunton's Magazine*, xviii. 566.

† *Industrial Commission*, i. 60, 129.

‡ See *Industrial Commission*, i. 18, 19; *Bulletin of Department of Labor*, No. 29, pp. 731, 735.

§ *Industrial Commission*, i. 19; *Bulletin*, 708.

‖ *Industrial Commission*, i. 39–57; *Bulletin*, 708–765; Jenks, 130–170.

¶ On this method of procedure see *Bulletin*, 709, 710.

** Partisans of the trusts follow generally one of two methods when presenting statistics of prices. Sometimes they naïvely quote merely the prices of refined oil from 1872 to the present, and claim for the trust the credit of the reduction. See Dodd, *Trusts*, 25, 26, 56; Flower, in *Gunton's Magazine*, xiii. 254; Gunton, *Trusts and the Public*, 218. In other cases, they exhibit tables showing the margin between the prices of crude and refined oil from 1871 down to the time of writing, and claim for the trust the credit of the decline. Here they carefully avoid comparing the margin before the formation of the trust in 1882 with the margin since that date. See Dodd, 62, 93, 94; Gunton, 14. Comment upon any of these performances is needless.

colossal magnitude, which possess and exercise the power of monopoly. But the reader of recent trust literature finds that many writers of recognized authority contend that these conditions of centralized control are to be permanent in industries that require heavy investments of capital for their successful prosecution, and that competition is a thing of the past.

In considering this proposition, careful discrimination is necessary at the very outset. There are three possible conditions under which industries may be conducted,—production upon a small scale, production upon a large scale, and centralized management by a single company or combination. Every student of economic history knows that production upon a small scale was long ago superseded in most important branches of manufactures by undertakings of a large size. The combinations of recent years have sought to replace these large establishments by single consolidated enterprises; and this is the real meaning of the trust movement and the arguments advanced to prove its natural and desirable character. No one wishes to revert to the stage when production was carried on by small establishments. Controversy exists only concerning the advantages of superseding large-scale production by combinations that include all important establishments in a single line of business. The "industrial combination," which those who take a generally favorable view of trusts are upholding, must mean the replacement of independent enterprises already conducted on a large scale by a single centralized management. To combinations of this character writers may or may not apply the term "monopolies"; but the real issue, nevertheless, is the alleged superiority of a single body of producers over independent rival concerns. When it is contended that combination means not "necessarily one great trust, comprising one great industry," but merely "an enlargement of capital," * we must insist that this is not what the arguments in

* Apthorp, *Trusts*, 25.

favor of centralization are considered or designed to prove. When another writer tells us that combination may be contrasted not with competition, but with "isolation,"— by which, probably, production in small establishments is to be understood,— we may properly remind him that in his own works combination is used as the opposite of competition, and that he says that sometimes "industrial units which are necessary for proper utilization of labor become so large as to produce actual monopoly." * When others tell us that the trusts have seldom secured that immunity from competition which monopoly implies,† it must be replied that this fact serves merely to discredit some of the arguments intended to prove the superiority of consolidation, and does not alter the purpose for which these arguments are advanced. If the tendency towards combination means anything, it means the substitution of centralized and consolidated management for the rivalry of independent concerns; and this may fairly be termed monopoly. If, furthermore, the advocates of combinations intend to defend nothing more than production upon a large scale, they should revise their list of arguments designed to prove that competition is "wasteful," "destructive," "suicidal," and "a thing of the past"; and should make it clear that they do not uphold the action of most of our trusts in consolidating all establishments of a given class, in order to "regulate production" or to "remove the evils of competition." We may advise the reader, therefore, to grasp firmly the distinction between large-scale production and monopoly, and to note carefully whether the arguments advanced in favor of combination relate to the one thing or the other. Unless this is done, clearness of thought becomes impossible.

* See Hadley, in *Atlantic Monthly*, lxxix. 377, 378. With this compare Hadley's *Economics*, 153, 154. The passage quoted refers immediately to public service industries, but at the bottom of page 154 the author applies this and other arguments to other branches of business.

† Collier, 106; von Halle, 72; *Gunton's Magazine*, xix. 350; Apthorp, 11.

Does the trust movement, then, mean a permanent régime of monopoly in industries where large amounts of capital must be employed? Some writers who consider the movement to be, upon the whole, a desirable development in industry, answer clearly in the negative. Thus Professor Sherwood says * that the dominant position which trusts now enjoy depends mainly upon "monopoly of undertaking ability," and that this is "in its nature temporary and the result of a competitive process." The large gains that now accrue to these monopolistic enterprises are merely a temporary reward for the development of a superior form of business organization. And Mr. Carnegie, Mr. Dill, Mr. Wanamaker, and others † insist that "every attempt to monopolize the manufacture of any staple article carries within its own bosom the seeds of failure," or that "no men, or body of men, have ever been able, or will be able, permanently to hold control of any one article of trade and commerce."

But the arguments of most of those who take a favorable view of trusts cannot be given such interpretation. Some writers state clearly and frankly ‡ that "the competitive system of industry is fast passing away," and that all lines of business "are, or soon are to be, monopolized"; that "monopolies of every sort are an inevitable result from certain conditions of modern civilization"; "that experience seems to justify the belief that monopoly within certain limits . . . may be secured simply by the possession of large capital"; or that trusts represent "a vast accumulation of productive resources which renders the competition of small concerns hopeless." And this is the view, of course, which is entertained by persons of social-

* *Yale Review*, viii. 365–368.

† *Century Magazine*, lx. 148; Dill, *The Corporate Proposition*, 18; *Corporations and Public Welfare*, 128; *Chicago Conference*, 576, 623.

‡ See, in order, Andrews, in *International Journal of Ethics*, iv. 321, 333; Baker, 159; Jenks, 64, 65; *American Journal of Sociology*, v. 232. With these see Kinley, in *Progress*, v. 18; Shaw, in Nettleton, 36, 41.

istic tendencies.* Sometimes it is attempted to add force to such arguments by calling combination the result of an evolutionary process of survival; and one writer remarks † that the trust is "an evolution from the *heterogeneous* to the *homogeneous*," — a statement which will interest those who happen to remember the Spencerian formula.

But other economists are less explicit. Writing of the trusts, von Halle says ‡ that "in the manufacturing industries, the victory of production on a large scale seems assured"; and he concludes his work with the somewhat oracular remark that "the future belongs neither to the prophets of individualism, nor to the ideals of the social democrats." Mr. Brooks thinks that "practical monopolies" have been formed, but that they can be permanent only in case "they put some kind of economic superiority upon the market." § Mr. Collier, rather inconsistently, says that competition is "business committing suicide," and then thinks that the trusts will be controlled by potential competition.‖ Professor Bemis looks upon a trust as "virtually a monopoly of large capital," possessing "vast possibilities of social advantage"; but thinks that we cannot pronounce a final judgment "until we have first removed all special privileges." ¶ And, finally, President Hadley believes that modern conditions "work in favor of those who advocate combination, and make it harder for independent competitors to resist it, or for the law to prohibit it on grounds of public policy"; yet he holds that, if prices are raised unduly, "new capital will come into the business." **

* See writer quoted by Ely, *Monopolies*, 146; J. A. Hobson, *Evolution of Modern Capitalism*, 126 (London, 1894).

† *Century Magazine*, lx. 144.

‡ *Trusts*, 63, 140, 149. For another failure to make clear the distinction between large-scale production and monopoly, and therefore a failure to convey a clear impression to the reader, see Holt, in *Review of Reviews*, xix. 675.

§ *Chicago Conference*, 62.

‖ *The Trusts*, 53, 143, 106.

¶ *Chicago Conference*, 395, 399; *Report of Anti-trust Conference*, 339, 342.

** *Economics*, 153, 161. In *Scribner's Magazine*, xxvi. 607, he is more explicit, — sufficiently so, perhaps, to justify our classing him with the writers mentioned in the previous paragraph.

But, if the advantages of industrial combinations, in both producing and marketing their products, are as great as most of these writers affirm, it is hard to see how unity of management can fail to secure ultimate control of most branches of manufactures. The lack of explicit forecasts of the future need not, therefore, prevent us from concluding that the general position of these economists is that a tendency to permanent monopoly may be clearly recognized.

But economists who think that, for the future, monopoly is to be the order of the day, generally consider that this control of industry will be limited by what is termed potential competition. Thus they do not affirm that absolute monopoly will prevail, but merely such a control of production and prices as will not tempt new capital into the field. To this subject we shall return in our later paragraphs.

Attention may now be directed to the reasons for this belief in the tendency of large-scale production to pass over into monopoly, and to the criticisms which such views evoke from writers who deny the existence of such a tendency. In favor of this proposition three general lines of argument may be distinguished: (*a*) the contention that a consolidated enterprise possesses advantages over independent companies in producing and marketing its goods; (*b*) the claim that mere mass of capital confers powers of destructive warfare so great as to deter possible competitors from entering the field; (*c*) the belief that modern competition between large rival establishments, representing heavy investments of fixed capital, is injurious to the public, ruinous to the producers, and in its final outcome self-destructive. As our discussion proceeds, it will become evident to the reader that all of these arguments can be employed, with consistency, only by those who believe that the competitive régime is to be replaced by an era of monopoly.

IV.

First in this list is the contention that a consolidated concern is a more efficient agent of production and exchange. It is claimed that a combination can effect a saving in no less than twenty different directions; * and the economy arising from such sources is declared to be great enough to give the trust a control over the market based solely upon superior efficiency,† and to make competition "hopeless." ‡ For this reason it is held that such combinations may confer "enormous" benefits upon society.§ The critic may well entertain the suspicion, however, after reading what is said upon this subject, that these arguments prove almost too much; for, if in twenty directions substantial economies may be realized by a combination, it would seem that the utter futility of competition would have been recognized by the business world long ago. If these arguments be altogether true, how is it that the trusts find competition so troublesome, and consider it "good business" to resort to the most disagreeable means of driving "interlopers" out of the field? Such tactics are decidedly "bad business," if they are needless; and we can hardly think that the shrewd managers of the trusts would care to arouse public resentment by unnecessarily harsh methods.

To consider this line of argument in any complete manner would expand this article into a volume; and we can discuss, therefore, only some of the more important savings that trusts are believed to realize. Of the twenty specific economies that have been enumerated, we shall take no notice of five which may be considered either

* For detailed lists of these economies see Baker, 9–14; Jenks, 21–43, 212–213; Gunton, 11, 12, 37, 38; Ely, 145–160; Collier, 61–77; *Quarterly Journal of Economics*, xv. 49; *Progress*, v. 23–25; Nettleton, 19, 20, 25–27.

† See Gunton, *Trusts*, 5, 36; *Gunton's Magazine*, xix. 350, 351; *Chicago Conference*, 476, 477, 588.

‡ *American Journal of Sociology*, v. 232.

§ Jenks, 213. See also Baker, 25; Collier, 37–39; *Progress*, v. 18.

doubtful or of minor importance.* Six others will be relegated to a foot-note, since it may be denied emphatically that they represent any substantial advantages which large independent companies cannot secure.† Three more may be set aside for incidental discussion ‡ in connection with the views of those who deny the tendency to monopoly. Of the remainder, three items relate to advantages in the manufacture and three to economies in the exchange of products.

Thus it is claimed that trusts, by filling orders from the nearest plant, can effect a great saving in cross-freights.

* These alleged advantages are: (1) combinations will prevent adulteration and improve products; (2) they will reduce losses from unwise extension of credits; (3) they will not suffer from stoppage of work by accidents in any one locality, or by labor troubles; (4) they need to carry smaller stocks of goods to meet demands of the market; (5) they may eliminate needless middlemen.

† These six items illustrate the necessity of discriminating sharply between large-scale production and monopoly. (1) It is said that combinations can specialize the machinery of the separate plants, thus saving the loss resulting from changing from one kind of work to another. Jenks, 36, 37. But large independent concerns have often done the same thing. (2) Combinations can push trade in foreign markets. But large independent companies have been equally successfully, or almost so. This claim provokes a smile from a Minneapolis miller. See Nettleton, 250. Such concerns as the Baldwin Locomotive Company deny that combination is necessary for this purpose. Rivals of the Standard Oil Company are now following the trust into European markets. *Industrial Commission*, i. 22. The Industrial Commission concluded that foreign trade does not need a monopoly. *Op. cit.*, 23. Wherever a combination, by keeping domestic prices at high figures, is able to sell a larger surplus abroad at low rates, we may deny the desirability of such extension of trade. On the general subject see Nettleton, 65–66. (3) Trusts can conduct auxiliary or subsidiary industries. So do many independent enterprises. Note Taussig's description of the extent of the activities of our large iron and steel companies. *Quarterly Journal of Economics*, xiv. 159, 160. (4) Trusts utilize by-products. So do large independent establishments, while small establishments sometimes co-operate for this purpose. (5) Trusts can employ chemists, inventors, and other experts to improve methods. This has for years been done by many large companies not in combinations. (6) Trusts can insure their own plants. But independent concerns may co-operate in establishing factory insurance companies, and secure the lowest possible rates, as some of our textile trades have done.

‡ These three advantages are: (1) combinations can specialize skill in management; (2) they can compare methods and costs of production in different plants; (3) fixed charges decrease as the size of the enterprise increases.

Data upon this question are available in the recent *Bulletin of the Department of Labor.** Of the forty-one combinations reporting, twenty-seven failed to answer this question, nine claimed a saving from this source, and five stated that there was no gain. Of the nine reporting a saving, the *Bulletin* states the amount only in three cases; and in two of these the item of cross-freights was combined with other economies, the aggregate sums being $400,000 and "considerably over $500,000." This, be it remembered, is the trusts' own showing, and is certainly not an underestimate. The reason for these comparatively small results is not difficult to discover, and has been recently explained by a writer who has heretofore emphasized most strongly this particular economy of consolidation.† When the monopolized product is of a bulky sort, the industry is already localized pretty thoroughly before combination takes place; and, since most of the former independent establishments were producing chiefly for their natural local constituencies, the trust can save little in cross-freights. When, however, the product is light, transportation charges become a matter of small moment. In either case the room for saving in cross-freights is not nearly as large as has been represented, while often it does not exist.

Then it is urged that a trust can draw upon all the patented devices of the constituent companies, and employ only those that are most efficient. But advantages accruing from this fact will in most cases prove to be of a temporary nature, as trusts that have tried to base a monopoly upon the control of all available patents have learned in the past, and will learn in the future. Moreover, a simple reform in our patent laws will make the best processes available for all producers ‡ at any time that the public

* *Bulletin*, No. 29, p. 673.

† Jenks, in *Quarterly Journal of Economics*, xv. 49.

‡ All writers recognize that patents have contributed materially to the establishment of certain monopolies. See the case of the American Steel and Wire Company. *Industrial Commission*, i. 18. Some measure of reform in our

finds such a measure to be necessary for protection against monopoly. Here, then, we find no natural law working resistlessly towards combination, but a man-made device which can be regulated as public policy may dictate.

Again, we are told that a trust can produce more cheaply than separate concerns, because all the plants utilized can be run at their full capacity; whereas, under competition, many establishments can be kept in operation but a part of the time. Two observations may be made concerning this claim. First, the extent of the economies thus realized is grossly exaggerated. The whiskey combination furnishes the stock illustration employed to enforce this argument; * and we are told that this trust was able to close all but twelve out of the eighty constituent plants, and yet produce almost the same quantity of spirits that formerly had been put upon the market. But the distilling industry is a highly exceptional case. For twenty-five years prior to the formation of the trust the federal tax upon whiskey had been so manipulated by the distillers as to call into the industry enormously excessive investments of capital. Competition, of itself, would never have produced conditions even remotely resembling those that prevailed in this business from 1865 to 1887.† The sugar refining industry is another stock illustration, but here, it is conceded, ‡ the tariff had given an undue stimulus to investments; and the same thing is true, probably, of many, if not most, of the trusts that have been able to close up a considerable number of plants.§ In

patent laws is favored by such a conservative writer as J. B. Clark and by some of those who uphold trusts. See *Chicago Conference*, 408; Jenks, 220, 221; Collier, 201.

* See Jenks, *Trust Problem*, 34; von Halle, *Trusts*, 59, 66.

† These facts are clearly stated by Jenks in *Political Science Quarterly*, iv. 297 *et seq.*

‡ Jenks *Trust Problem*, 45. See Havemeyer's testimony, in *Industrial Commission*, i. 59.

§ For other cases see *Yale Review*, vii. 315, viii. 157, 170; *Industrial Commission*, i. 207. Other instances can be found without great difficulty.

general, it may be denied that, whenever governmental interference has not produced unhealthy and abnormal conditions, competition has led to such absurdly excessive investments as is commonly assumed. We must concede, however, that under normal conditions some reduction can be made in the number of plants required to supply the market at ordinary times; but this does not dispose of the matter. If a trust is to be prepared for supplying the market promptly in times of rapidly increasing demand, it is necessary that some surplus productive capacity must exist in periods of stationary or decreasing demand; for, as believers in the tendency to monopoly often remind us, many months, or even one or two years, are required for the construction of new plants. When this fact is taken into account, the case will stand as follows: except where the action of government has produced abnormal conditions, the capacity of competing establishments does not exceed the requirements of the market to any such degree as is commonly assumed; even a trust must provide for periods of expanding trade, and this fact diminishes materially the margin for saving by avoiding the burden of idle factories; even then, not all rival establishments suffer seriously from inability to find continuous employment for their plants, so that probably the advantages secured by the trust are of consequence only when the least fortunate or least efficient independent concerns are made the basis of comparison. In those cases, however, where abnormal conditions have been created by the operation of our tax laws, we need entertain no surprise at the appearance of consolidated companies. But in the future, it may be asserted, this particular force will not prevent rival companies from competing for a share of an increasing trade.

The last three economies relate to advantages in buying materials or selling products. It is urged that a combination can purchase its raw materials more cheaply than

separate concerns. This would probably be interesting news to many large companies not connected with trusts, and Professor Ely is undoubtedly right in remarking that all ability in bargaining is not controlled by combinations.* No one doubts that a large company can often secure better terms than a small establishment; but it is not so clear that every trust can secure supplies more cheaply than large independent enterprises, unless it is true that all combinations can arbitrarily depress the prices of the materials which they consume. Undoubtedly, this has been done by some of the trusts,† although their partisans deny it; ‡ but such a saving represents no social gain, and sometimes it may be possible for would-be competitors to profit by the depressed condition of the market for raw materials. We do not need to deny that *any* combination can gain an advantage in the purchase of supplies,§ in order to support the contention that no *general* advantage accrues to the trusts from this source. On this point the *Bulletin of the Department of Labor* shows that a majority of the forty-one combinations investigated "did not answer this question specifically," while the representations made by the minority claimed no great economy in purchases except in a few cases. Even when considerable savings are realized, it is always possible that these represent, chiefly or wholly, gains on that part of the aggregate purchases which was formerly made by the smaller and weaker establishments; so that the realizing of a net gain does not establish the existence of an advantage over the largest companies that entered the combination.

And, finally, we come to economies in advertising and in soliciting business, where the wastes of competition are certainly serious and the room for improvement correspond-

* *Monopolies*, 162, 163.

† *Industrial Commission*, i. 17, 142; Jenks, 155, 156; von Halle, 70.

‡ See Gunton, 82–87; Dodd, 62, 76. Dodd claims that the oil combination has *raised* the price of crude oil.

§ For an instance, see Jenks, 145, 146.

ingly great. Those who deny the tendency to monopoly generally admit that a trust can have a material advantage here,* while those who affirm the existence of such a tendency evidently realize that their case is strongest at this point.† Yet an opportunity for saving in these departments does not always exist,‡ and the extent of the economy is easily exaggerated in other cases. Mr. Nettleton is right when he says: § "But to whatever extent the trust-organizers have counted on practically cancelling expenditure for these two items, on the ground that buyers will be obliged to come to the sole manufacturers, they are likely to be surprised. Those trusts that have tried this experiment have discovered that demand for commodities falls off with remarkable rapidity as soon as effort in pushing sales is materially reduced. To an extent which few appreciate, the buying public has become accustomed to being reminded of its needs before making purchases. The country merchant often has more inertia than enterprise, and, with the periodical visits of his favorite drummer discontinued, his orders dwindle or are delayed until unseasonable. Except in staple and absolutely necessary commodities, demand is largely created and maintained by advertising through periodicals, catalogues, or travelling salesmen. Hence, the trust that expects to save the bulk of this important item must also expect to lose through diminished sales more than the economy represents. This is not theory, but the testimony of leading dealers in many lines." Moreover, those who believe in the permanence of competition will not lose sight of another consideration which is advanced by Professor Marshall,‖ who writes concerning the econo-

* Ely, 167; Nettleton, 64.

† Jenks, 67, 68; Collier, 37, 61. Both of these writers admit that the gains of combination are rather in marketing products than the work of manufacture.

‡ *Bulletin of Department of Labor*, No. 29, p. 673. Here it is stated that several trusts reported that there was no saving in advertising, while one combination reported that more was spent.

§ *Trusts*, 64.

‖ Marshall, *Some Aspects of Competition*, 24.

mies accruing from these sources: "But its weakness in this regard lies in the fact that to keep its monopoly it must be always bargaining and manœuvring on a large scale. And if its monopoly is invaded, it must bargain and manœuvre widely in matters of detail as well as in larger affairs."

The result of our discussion up to this point would seem to be that any advantages of a monopoly over independent concerns of a large size are but slight, except in the single matter of effecting sales. We must now take into account certain counteracting forces, upon which some writers rest their belief that competition will ultimately prevail. These economists contend, in the first place, that, outside the field of the natural monopolies, the growth of a business enterprise is limited by the fact that companies of a certain size will secure "maximum efficiency" of investment, and that beyond this point concentration brings no increase in productive capacity. Without introducing the arguments of professional economists upon the subject,* it may be pointed out that this view is entertained by many men who have a practical acquaintance with our large manufacturing industries.† This position is based upon the belief that a factory of a certain size will enable machinery to be employed in the most advantageous manner; that a reasonable number of such plants will make possible all needful specialization of production; that allied and subsidiary industries can be, and are, carried on by large independent concerns; and that the cost and difficulties of supervision increase rapidly after a business is enlarged beyond a certain size, especially when it is attempted to unite plants situated in dif-

* See Clark, in *Chicago Conference*, 405; Adams, *op. cit.*, 37; Ely, 165, 166; Rousiers, 281, 320; Meade, in *Annals*, xvi. 353. See also *Chicago Conference*, 620; Nettleton, 62, 63. Even Jenks wavers at this point, 68.

† See Studebaker, in *Chicago Conference*, 575; Mr. Converse, of Baldwin Locomotive Works, in *Springfield Republican*, December 20, 1900; Messrs. Doscher, Post, Clarke, Griffiths, and Taylor, in *Industrial Commission*, 68, 88, 185; Pillsbury, in Nettleton, 251.

ferent parts of the country. For this reason, increased output does not decrease the burden of fixed charges after a company attains a certain magnitude; * but, on the contrary, new charges arise. Among such new expenses, not the least important are the cost of employing the most skilled legal talent to steer the combination just close enough to the law, the expenses necessary for "legislative" and "educational" purposes, and the outlays for stifling competition or the continual "buying out" of would-be rivals.

Not only is it denied that consolidation secures no decrease of fixed charges over independent concerns possessing sufficient capital, but it is argued that an established monopoly will suffer actual loss from listless and unprogressive management. As the New York *Journal of Commerce* rightly insists, "it is not to be denied that such concentrations of management will be subject to countervailing offsets from the absence of the stimulus of competition; from the uncertainty about the management falling into the best possible hands; from the discouragement to invention which always attends monopoly; and from the possibility that the administration may be intrusted to 'friends' rather than to experts." And the existence of such drawbacks is admitted by many of those who believe combination to be desirable and inevitable.† As Professor Clark suggests, an established monopoly, secure in the possession of the markets of a large country, "would not need to be forever pulling out its machines and putting in better," so that, as compared with countries where industry is upon a competitive basis, such a combination would

* An alleged decrease is one of the twenty supposed economies of combination.

† See Andrews, in *International Journal of Ethics*, iv. 327, 328; Hadley, 159; Collier, 124. Sherwood thinks a point may be reached where monopoly "tends to prevent improvement." *Yale Review*, viii. 367. Gunton and von Halle admit that, if complete control of markets could be secured, this would be the result. *Gunton's Magazine*, xix. 349; *Trusts*, 68. See references to Jenks and Hadley in subsequent notes.

fall behind in the struggle for international trade.* In ruthlessly and unceasingly displacing expensive machinery with newer and better appliances, American manufacturers have probably led the world; but monopolies will inevitably feel reluctant to continue such an energetic policy of improvement. As combinations obtain a greater age, they will persist in old and established methods;† while nepotism and favoritism, tending towards hereditary office-holding,‡ will replace the energetic management that some of the trusts now display. Andrews is correct in holding that the quest for able and progressive management, which often marks the efforts of existing trusts to make their dominating position secure, is no argument against the probability of future apathy when monopolies have been long established.§

Here we may refer to two of the alleged advantages of trusts. It is said that combinations develop abler management through the opportunity they afford for a specialization of skill upon the part of their officials,‖ and that efficiency is increased by a comparison of the methods and costs of production in the various plants.¶ The first of these advantages may be open to question, since it is not clear that large independent concerns do not afford sufficient room for specialization of talent; while it may be denied that, in the long run, any possible gain from this source will suffice to counterbalance the apathy begotten by monopoly. Concerning the second it may be remarked that, at the outset, this gain would accrue only to the least efficient plants, and would not make the combination superior to the best of the original establishments; while, after a time, although all the factories might be brought

* *Gunton's Magazine*, xix. 210. Cf. *Political Science Quarterly*, xv. 184.

† See Ely, 167. Note Hadley, in *Atlantic Monthly*, lxxix. 383.

‡ See admission of Jenks, in *Quarterly Journal of Economics*, xv. 51-53.

§ *International Journal of Ethics*, iv. 327, 328.

‖ Jenks, *Trust Problem*, 36, 37; *Quarterly Journal of Economics*, xv. 51.

¶ *Bulletin of Department of Labor*, No. 29, p. 675; Collier, 77.

up to the same level, the lack of competition would retard the rate of future improvement.

When it is contended that the "strength of the trust is that it gives the opportunity for the exercise of these highest qualities of industrial leadership," and that it gives us "a process of natural selection of the very highest order," * we may question whether stock speculation and other causes lying outside the sphere of mere productive efficiency have not had more to do with the formation of recent combinations than demonstrated superiority in business management. And, even if it be admitted that dominating powers of leadership have played their part in the movement, it may be asserted that the establishment of permanent monopoly † will interfere seriously with the future process of selection. Professor Lindsay has remarked very justly ‡ that the "development of a high order of undertaking genius in the few seems .... to depend upon a wide range of undertaking experience in the many," and that under a régime of trusts "we would in the course of a few generations have very little available material from which to make selections." It must be remembered that the able leaders now at the head of the successful trusts were developed out of a field which afforded the widest opportunity for creative ability and independent initiative. These are the supreme qualities requisite for great industrial leadership; and they are not likely to be fostered by a régime which, if the believers in monopoly are to be taken at their word, closes each important branch of manufactures to new enterprise, and renders hopeless all competition with a single consolidated company. Will successive generations of bureau chiefs or heads of departments in long-established corporations be

* Sherwood, in *Yale Review*, viii. 364.

† I am not unmindful of the fact that Professor Sherwood considers such monopoly to be in its very nature temporary. This part of the argument relates to the claims of many writers that monopoly is to be permanent.

‡ See *Publications of American Economic Association*, Third Series, i. 204.

able to continue the race of masterful leaders, which freedom in originating and organizing independent industries has given us in the present age?

This leads to another consideration. In an industry organized upon a national scale, under the control of a single company, there must arise an "irrepressible conflict" between that central responsibility necessary for intelligent, unified management and that individual freedom and energy requisite for the healthful life of the separate members.* For centralized control, elaborate and costly administrative apparatus is absolutely essential; and this mechanism of superintendence soon becomes fixed and bureaucratic in its methods, so that it bears heavily upon the individual parts. President Hadley has said recently that, as trusts gain in age and experience, good private business will become so similar to good public business that it will make little difference whether an enterprise is carried on by the public or by individuals.† In one respect, at least, his argument is well founded. Governmental enterprises usually suffer, at least when conducted upon an extensive scale, from the lack of that stimulus which only competition can give and from the growth of fixed bureaucratic methods of control. A private monopoly that engrosses an entire branch of industry must develop inevitably, in the course of time, the very characteristics that impair the efficiency of a public undertaking.‡ Both will exhibit the tendency to unprogressive management which comes from the absence of competition § and the weight of centralized administrative machinery.

* This has been pointed out by Professor Marshall, *Some Aspects of Competition*, 17.

† *Scribner's Magazine*, xxvi. 610.

‡ President Andrews confronts this question squarely when he says, "In this important regard the system of trusts is obnoxious to the same criticism nearly always made against socialism." *International Journal of Ethics*, iv. 328.

§ The writer does not overlook the fact that believers in monopoly contend that potential competition survives the formation of trusts. But in subsequent

When all the arguments are sifted, and the balance of advantage or disadvantage is determined, there is reason for thinking that the losses due to monopoly will more than offset occasional slight gains in the work of manufacture and the more substantial savings in placing products upon the market. This conclusion is strengthened by the showing which most of the trusts have made in the payment of dividends upon their securities. As is well known, the preferred shares have usually represented the amount paid in cash or securities for the plants that have been purchased and for the working capital supplied by the financier. The common stock represented nothing more than "the substance of things hoped for" in the way of alleged economies of operation. Although times have been unusually prosperous, and prices, already high, have often been increased by the trusts, dividends on the common stock have almost universally disappointed the expectations of those who invested with the hope of securing a part of the "enormous" savings of combination.*

V.

The second argument advanced to prove the tendency to monopoly is the claim that mere mass of capital confers such powers of destructive warfare as to deter possible competitors from entering the industry, at least until prices have long been held above the competitive rate.

paragraphs it will be shown that, if the arguments advanced to prove the superior efficiency of trusts are sound, competition cannot continue in any form.

*Another consideration bearing upon this question of the efficiency of trusts is the fact that they have, in order to obtain control of their industries, bought up large numbers of antiquated or badly situated plants which will be a permanent burden. See Collier, 67, 68; von Halle, 61; Jenks, 195–197; *Trust Conference*, 623; *Century Magazine*, lx. 148; Nettleton, 250. In cases where plants are paid for by issues of preferred stock, as has usually been the case, the sums paid for worthless factories will affect dividends, but not financial solvency. Where bonds have been issued, however, then the burden will become more serious.

It is said that a large combination can lower prices below the cost of production in any locality where a small rival concern is established, thus driving it out of the field. If, on the other hand, a large rival company attempts to compete in all markets, this will mean an investment of capital in excess of the needs of trade, with a consequent depression of business and loss to all concerned.* Without doubt the destructive competition waged by combinations is an important consideration, and it may well enough re-enforce monopoly where other attendant circumstances favor consolidation.† But a monopoly based solely upon this power would be, confessedly, a temporary affair; for probably no one would claim that all capitalists would be intimidated permanently by such circumstances. This argument, therefore, may be used properly enough to strengthen the conclusions drawn from the alleged economies in production; but it does not of itself establish the existence of a permanent tendency to monopoly. Of this truth, any one who observes the trouble which trusts are having with new enterprises at the present moment may obtain sufficient evidence.‡

It should not be forgotten, furthermore, that this argument depends upon the fact that combinations at present are allowed to employ the weapons of discriminating prices and other tactics, which violate every one's sense of fair play although they may be difficult to suppress. If uniform price lists could be made obligatory, then this power of intimidating rivals would largely disappear; for, if a trust must give its products away in all markets in

* Jenks, 66, 67; Forrest, in *American Journal of Sociology*, v. 241; Collier, 129; Baker, 350, 351.

† This is admitted by Ely, 178.

‡ One illustration from an earlier period may be cited. At the opening of 1892 it is said that the lead trust owned all the establishments in the country except two. In 1894, however, there were in existence independent plants producing as large a product as the trust. The trust had a capitalization of $30,000,000, the independent companies employed a capital of $2,000,000. See *Popular Science Monthly*, xliv. 741, 742. More recent illustrations will be presented later.

order to ruin a competitor who enters a portion of the field, then its losses would be proportionate to the mass of capital, and the advantage over the independent concern would disappear.* Without doubt the prevention of price discriminations would be a work of great difficulty; but, if this must be done in order to prevent the abuses of monopoly, then some way of accomplishing the result can and will be found. Such a remedy will be less difficult than the elaborate schemes which those who believe in trusts advocate in order to remove admitted abuses in other directions. The menace of mere mass of capital is at the most a cause of temporary monopoly, and its potency can be destroyed by depriving the trusts of their favorite method of "sand-bagging" competitors.

VI.

The final reason for the belief that combinations must ultimately prevail is found in the character of modern competition in those industries which require heavy investments of fixed capital. Under such conditions the difficulty of withdrawing specialized investments and the losses that are entailed by a suspension of production make competition so intense that prices may be forced far below a profitable level without decreasing the output; and industrial depression inevitably follows.† For such constant fluctuations in prices, combination is considered the natural and inevitable remedy. Some writers allege, furthermore, that it "is not possible to have competition without competitors, and, if there be competitors, one must prevail," so that monopoly "is the inevitable fruit of competition." ‡

* This is urged by Clark in *Political Science Quarterly*, xv. 194.

† Jenks, 16–20, 199, 200; *American Journal of Sociology*, v. 232, 233; *International Journal of Ethics*, iv. 322, 323; *Forum*, xxviii. 414, 415; Hadley, 158, 159; *Progress*, v. 18; Collier, 43.

‡ Cochran, in *Chicago Conference*, 476; Collier, 40. Since the existence of absolutely unique undertaking ability may be safely denied, this particular

The socialist who reads some of these arguments must feel that at last many of the criticisms which he has long urged against competition have been accepted by economists of the orthodox type. Certainly, few stronger indictments of the competitive régime have been formulated by socialistic critics of the existing social order. Thus the believers in trusts tell us that "individualism and the competitive system have run their course"; that "the competitive system of industry is fast passing away"; that competition is "inadequate and wasteful," resulting in "general depression" and "industrial loss"; that the competitive régime leads to warfare that is first "intense," then "destructive," then "self-destructive"; that competition is not the "life," but "the death of trade" and "a destroying force to those engaged in it," so that it is termed "business committing suicide." * Professor Ely remarks, justly enough, that such contentions are "a virtual surrender to the theory of socialism." † In any event, the reader will perceive that it is idle for economists who hold these views to imagine that their theories do not lead to the conclusion that competition is impossible and permanent monopoly inevitable in the industries to which the discussion relates.

In continuation of this line of argument, it is said that trusts are beneficial, because they can "exercise a rational control over industry," and "adjust production to consumption." ‡ Thus it is believed that commercial crises can be prevented, or, at least, that their worst effects can

allegation may be dismissed with the single comment that, while leaders of remarkable talents may temporarily secure a dominating position, permanent monopoly can never be established upon such a basis as this.

* For these references in order see *Independent*, xlix. 273; *International Journal of Ethics*, iv. 321; Nettleton, 36; Jenks, 199, 212, 213; Collier, 43; *Progress*, v. 18; *Chicago Conference*, 288; Collier, 55.

† *Monopolies*, 168.

‡ Gunton, 77, 78, 254, 255; *Chicago Conference*, 58, 69, 550; Apthorp, 25; Collier, 73; *International Journal of Ethics*, iv. 331; Hadley, in *Scribner's*, xxvi. 606.

be avoided.* But such arguments overlook the facts that a restriction placed upon production by a trust, especially if this is sufficient to raise prices above the competitive rate, may react injuriously upon other trades; † and that monopoly profits, accruing to a small body of capitalists for a long period of time, must constitute a tax upon the body of the people that will affect the distribution of wealth in such a way as to reduce the consuming power of the masses.‡ A reduction in purchasing power thus produced would render excessive the existing investments in staple industries, and produce crises in precisely the manner described by Rodbertus and Marx. It will probably be wise, in any case, to postpone a final conclusion upon this subject until we know the ultimate consequences of the present depression in Germany,—a country whose industries are to a large extent "regulated" by various combinations. And it remains to be seen how our own trusts will deal with the almost inevitable reaction from the intense speculative activity of recent years in the United States. If trusts are unable to destroy the competition that is now disturbing the serenity of their managers, and must meet with continual interference from "interlopers," it may turn out that combinations professing ability to secure large profits on excessive capitalization are such a tempting mark for rival capital that our new remedy for industrial depression will merely intensify the evils which it was designed to cure.

Not only is it doubtful whether monopoly is a wise method of regulating industry, but it is certain that the

* I shall pass over without comment such statements as "With a consuming power of 75,000,000, we have a producing power of 150,000,000," and the like. Thurber, in *Arena*, xxii. 310. *Cf.* Collier, 71.

† Note Marshall, *Some Aspects of Competition*, 24; Adams, in *Chicago Conference*, 37; also Bemis, *op. cit.*, 398.

‡ Even if trusts do not reduce nominal rates of wages,—as we are told they will not,—such a tax would result from holding prices above the competitive rate; for this would diminish real wages and decrease purchasing power.

evils of competition are greatly exaggerated in some cases,* while in others they are due to unhealthful conditions for which an interference with industrial freedom is responsible. Mention has already been made of the distilling industry, which has served as a typical example of the evils of competition and the benefits of combination. Here all will admit that excessive investment was due to the unwise action of Congress in changing the rate of taxation in such a manner as to benefit the distillers, and to lax enforcement of the revenue laws, which enabled those who evaded the exciseman to realize a profit of several hundred per cent. In this case, depression was not due to mere competition; and, moreover, the formation of pools, and finally a trust, served merely to call more capital into the industry and to intensify the evils.†

In many other industries where trusts have been formed, the excessive investment of which writers complain was caused by the undue stimulus given by high protective duties and by the restriction of foreign competition. Upon over-investments caused by increases in the tariff, enough has been said in a previous paragraph; but the second topic requires further explanation. The iron and steel industries are the best illustration of the periodic fluctuations of prices, of which the believers in trusts complain; and Professor Taussig has recently demonstrated that these phenomena are greatly intensified by the opera-

* While business depression is commonly assigned as the cause of combination (see *Industrial Commission*, i. 214, part 2, 21, 109, 168, 169, 255, 811), especially by trust magnates, it is certain that the large majority of our present trusts were formed in a period of unusual prosperity, when the stock market offered an opportunity for large speculative gains. Even when depression is known to have been a cause of consolidation, sometimes not all the companies, but only the weaker ones, were losing money. See *Yale Review*, viii. 157; *Annals*, xvi. 355; *Industrial Commission*, i. 176. It is notorious that it has been the weaker plants that were most anxious for combination, while the better concerns could be induced to join, in many cases, only by the offer of excessive prices for their factories. Note Collier, 208, 209.

† This is conceded by Jenks, *Trust Problem*, 149; *Political Science Quarterly*, iv. 314.

tion of our tariff.* He shows that in times of rising prices the restriction of importation has thrown upon domestic producers nearly the whole work of supplying the expanding market. Since new plants cannot be erected in a short time, prices increase enormously before domestic production equals the demand. These high prices cause excessive investment, and hasten a reaction which results in a consequent period of depression. During the recent "boom" in the iron markets of the world, English prices rose from $9.80 to $16.70 per ton for one grade of pig iron, and from $11.70 to $18.60 for another, an increase of 70 per cent. for the first kind and 59 per cent. for the second. At the same time American prices rose from $10.00 to $25.00 per ton, an increase of 150 per cent., so that the absence of foreign competition made the fluctuations more than twice as great as they were in the English market. This, he adds, "is but an illustration of the simple principle that, the wider the range of the sources of supply, the greater the steadiness of prices." When Mr. Carnegie complains,† therefore, of the alternating periods of expansion and depression that beset the iron industry, he merely emphasizes the connection between our protective tariff and the intensification of the causes that are alleged to produce trusts. Since the range of our protected industries is so great, the importance of the considerations just presented can hardly be overestimated. Competition is restricted by protective duties in most of the industries where combinations are formed; these duties increase the severity, and perhaps the frequency, of the fluctuations from which business suffers; then trusts, a further restriction of freedom, are advocated as a remedy for the ills caused by the initial interference with individual enterprise; and, finally, in order to regulate the trusts, an elaborate system of public supervision is proposed. Would it not be well to make a genuine trial of competition before condemning

* *Quarterly Journal of Economics*, xiv. 479–484.

† *Century Magazine*, lx. 147.

it for producing evils which are greatly increased by governmental interference with industrial freedom?

Competition cannot be proved a failure until it is given a trial. The evils from which many economists would seek refuge in industrial combination are greatly increased by unwise laws which have now outlived any usefulness that originally they may have possessed. If unhealthful conditions produced by our own interference with the course of business are ever removed, competition will probably develop no evils which could not be borne, as vastly preferable to monopoly, public or private. Indeed, even as things are, the shortcomings of the competitive system are exaggerated; and attempted monopoly is more likely in the end to increase, rather than mitigate, those periodic fluctuations from which industry suffers.

VII.

Monopoly is not a pleasant word, and believers in the wasteful and destructive character of competition prefer to speak of trusts as combinations; or, when they use the term monopoly, hasten to explain that this does not imply the absence of all competition. Thus it is said * that either actual or potential competition will oblige the trusts to share with the public the savings arising from consolidation, and will protect the consumer from serious injury. Since this argument has been allowed hitherto to pass without serious criticism, the reader is asked to give it a moment's consideration.

When Professor Clark says that the actual investment of new capital is not always necessary in order to restrain the power of a combination to raise prices, because the mere possibility of rivals entering the field may suffice,†

* See Hadley, 161-163; Jenks, 224; Apthorp, 11; Gunton, 24, 25, 193-196; *Gunton's Magazine*, xix. 349-351; *Progress*, v. 59; *Industrial Commission*, i. 200. This list of citations could be extended almost indefinitely.

† *Chicago Conference*, 407-409; *Political Science Quarterly*, xv. 186.

his argument is not inconsistent or absurd, because he does not believe that a monopoly is a more efficient agent of production than a large independent concern, or that the competitive régime is necessarily destructive and suicidal. And, when he shows that this "potential" competition of new capital can be made more effective by abolishing railroad discriminations and discriminating prices, he makes a distinct contribution to the discussion of the trust problem. But no such argument can come, without manifest inconsistency, from economists who believe that a trust is superior to independent companies. The gulf between permanent monopoly and competition cannot be bridged, even by appealing to such a subtle agency as potential competition.

In the first place, competition, actual or potential, could not distribute among consumers more than the most infinitesimal share of the alleged economies of monopoly. The reader will remember that the advocates of combination consider that it is proved that a single company can produce and market commodities at a much lower cost than independent concerns. If this be true, we may assume that, if the lowest price at which an independent company can afford to sell a commodity be one dollar, a combination can afford to sell for still less, say eighty cents, and that the difference of twenty cents represents the savings effected by monopoly. Now it is evident that competition can never, except for relatively short periods when the market is overstocked, reduce the price below one dollar, and that producers will never enter the field unless they hope to be able to secure at least these figures. A monopoly, therefore, can maintain the price at ninety-nine and nine-tenths cents without inviting competition; and the public cannot hope to secure more than the most insignificant fraction of the savings due to consolidation. Competition, manifestly, can do no more than prevent prices from rising as high as one dollar. Competitors might, at

the outset, enter the industry under a misapprehension of the situation; but it would soon be demonstrated that a price just under one dollar would make competition hopeless. If, moreover, as is alleged, mere mass of capital tends to deter competition until prices are raised somewhat above the competitive point,* this argument becomes still stronger; and it would seem that the monopoly might charge even one dollar without holding out sufficient inducements to possible rivals. Thus the whole saving, and possibly something more, would go to the combination.

Secondly, even if competition could hold monopolistic power in check, the remedy would be wasteful and uneconomic, and would mark a return to the very evils which combination is supposed to cure. The argument for monopoly is based upon the claim that competition is wasteful, destructive, and productive of all the evils in the calendar. To remedy the evils of competition, it is proposed to resort to combination: then, to cure the wrongs of monopoly, it is argued that we can return to competition. Indeed, the evils of renewed competition after monopoly has once been established are more intense, since the chances are that the high profits of the combination will call too much capital into the field; so that the last state of the industry that has been regulated "rationally" and "scientifically" by a single company will be worse than the first. Moreover, if combination possesses all the advantages that are claimed for it, wise public policy would necessitate the adoption of some method of preventing waste from the useless duplication of manufacturing plants. In public service industries, where all people have become convinced that competition does result disastrously both to producer and consumer, such a restrictive policy has been followed. We no longer think of paralleling existing lines of railroad in order to remedy the evils of extortion, and few cities will in the future permit their streets to be

* This is argued by Jenks, 65–68; Collier, 126–128.

torn up in order to install unnecessary gas or water mains. If, in manufacturing business, consolidation has all, or nearly all, of the advantages which it possesses in the railway, gas, or water industries, public policy will dictate that the evil results of competition be recognized and that future waste of capital in rival establishments be prevented. The arguments in favor of combination suffer from a superabundance of proof that monopoly is more efficient in production and more healthful and rational in seeking for public favor. Those who accept these arguments as correct should carry them to their logical conclusion, and admit that competition is an undesirable remedy for whatever evils monopoly may develop,* and that public regulation is the only available method of correction short of socialism.

Finally, it should be remarked that competition is not only an undesirable, but an impossible remedy, if the tendency to monopoly is as strong as represented. If competition with consolidated concerns is hopeless on account of advantages in producing and marketing goods, capital will soon find this out, and refrain from further meddling with enterprises that are foredoomed to failure. If the business world becomes convinced that competition inevitably leads to suicidal warfare when large investments of capital are involved, then public opinion or positive restraints of law will demand that further criminal waste of capital and energy shall cease. *Potential* competition will lose all of its virtue when the futility and folly of *actual* competition are once forced upon the convictions of those who possess capital; and, when this happens, the monopolist will soon forget that the danger of rivalry ever existed. If experience ever demonstrates that the arguments of many economists are correct, then we shall be confronted by the grim fact that competition is

* So far as I am aware, Mr. Baker is the only writer who accepts the results of his own logic. *Monopolies*, 204, 205.

dead and that monopoly is inevitable in most important branches of manufacturing industry. Remedy there will be none, save public ownership or public regulation; and past experience raises uncomfortable doubts whether, under the second method, the government or the trusts would be the regulating power.

VIII.

The reader will have observed that most of the questions raised by this survey of trust literature do not admit of the application of precise methods of determination, and that all that can be done is to weigh opposing forces and form a rough estimate, based upon general impressions oftener than exact measurement, of the relative strength of the advantages and disadvantages of consolidation. While conclusions thus reached fall far short of certainty, and prediction is dangerous, this is due to the fact that data for a more exact investigation are denied to economists, who can, at the best, secure but occasional glimpses into the inner workings of great business corporations or draw what inferences seem warranted by the facts that come to the attention of the public. This examination of the recent drift of opinion concerning trusts would seem to have established only two conclusions: first, it will be wise to maintain a position of scepticism concerning the alleged advantages of combinations; and, secondly, it is very important to notice that the alleged tendency to permanent monopoly is irreconcilable with the continuation of anything that properly can be called competition.

If we adopt the conclusion that it is improbable that trusts are caused by superior efficiency in production, we are not, of course, without assignable reasons adequate to explain the movement towards consolidation in the United States. Control over limited supplies of natural resources is the strength of some combinations; railway

discriminations, patent rights, and the shelter of protective duties have given material comfort and support to others. The opportunity to secure fancy prices for manufacturing plants, which could then be capitalized at still higher figures for the profit of the promoter and financier, is another explanation of vast importance. With so many premiums offered for combinations, the only cause for wonder is that any industries have escaped consolidation. Finally, the losses that competition often entails, which have been made worse by unwise laws, have furnished a pretext of no little plausibility for attempts to form monopolies. It is at this point that the arguments in favor of trusts possess most weight.

Yet, with all the strength that the movement towards combination has acquired, competition has always vexed the would-be monopolist, and is especially active at the present moment. As this is written, one trust is already confronted by fourteen independent companies, while another rival enterprise with a capital of $1,000,000 is in process of formation. Another combination owning 290 mills was, in October, confronted by independent companies operating 74 mills; and in December a new concern with a capital of $5,000,000 was formed. Almost every day brings word of the appearance of new competitors for various trusts, and the New York *Journal of Commerce* says that the revival of competition may be considered a general movement. Some of the independent enterprises may have been started with the purpose of selling out to the trusts; but, if combinations have the superior efficiency that is claimed for them, they are under no obligation to purchase, and the investors in rival concerns would be taking inconceivable risks if competition were really useless. Trusts purchase rival concerns because competition from such companies is dangerous, and not hopeless; and the revival of independent enterprise is a reason for believing that the business world has not ac-

cepted the theory that a combination possesses material advantages over separate companies of a large size. Experience may yet demonstrate that the attempt to "regulate" industry by consolidated enterprise is the surest method of producing over-investment and depression.*

If one concedes that competition is attended with real evils, he is admitting nothing that economists have not known for a long time; and, if it is denied that combination is a good, or even possible, remedy for the ills from which we occasionally suffer, all hope of escape does not disappear. The growth of fixed capital has undoubtedly introduced into industry a disturbing element, productive sometimes of fluctuating prices and excessive investments of capital in certain directions. The situation can be improved by the repeal of unwise laws that intensify whatever unhealthful tendencies competition may have; and, beyond that, relief can be found in measures that will raise business management to a higher plane. The moral and legal responsibility of our captains of industry must be made commensurate with the enormous powers that they wield; and the same moral restraints to which, in the last analysis, even believers in combination appeal,† would prove a solvent of the very ills which monopoly is supposed to remedy. Then sound judgment can be fostered by the further development of industrial statistics; and, finally, the substitution of a moderate policy in the place of monopoly-hunger would be more helpful than all else. It may be found, in the long run, that a willingness to allow one's neighbors to live not only possesses more solid advantages than the "economies of combination," but is the only basis upon which private ownership and control of industry can continue. As corporate enterprises in America grow older, each company may cease to be dominated by a few men; and the management may come to

* On the inevitable persistence of competition, even under a general attempt to establish monopolies, see Clark, in *Economic Studies*, i. 13.

† See Hadley, 120; Andrews, in *International Journal of Ethics*, iv. 334.

represent the average opinion of the stockholders.* Such conditions would probably favor the development of a "live and let live" policy. In any event, it will prove easier to impress upon independent business firms the saving grace of moderation than to persuade the monopolist to exercise his powers in a wise and benevolent manner. Good despots there have been, undoubtedly; but we have had no experience with human nature that goes to prove that autocratic control is generally safer in industry than in politics.

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* Note Marshall's comparison of English and American corporation meth ods, *Some Aspects of Competition*, 14.